GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:2979
ANSWERED ON:12.08.2005
LIC POLICY HOLDERS
Sen Smt. Minati

Will the Minister of FINANCE be pleased to state:

(a) Whether Blue-chip companies like ITC, L&T and UTI bank, that have generated exceptional returns for shareholders, are becoming useless for policy holders of Life Insurance Company;

(b) If so, the details thereof;

(c) Whether financial institutions have to maintain stake to ensure that there is no change in professional management;

(d) if so, the details thereof;

(e) whether LIC valuation surplus is declining by Rs. 433 crore every year;

(f) whether the valuation surplus is distributed among the LIC policy holders and the Government in the ratio of 95:5;

(g) if so, whether the policy holders interest is jeopardized by the Government decision; and

(h) if so, the details thereof?

Answer

MINISTER OF THE STATE IN THE MINISTR Y OF FINANCE (SHRI S.S. PALANIMANICKAM)

(a)&(b): No, Sir. The Life Insurance Corporation of India (LIC) makes equity investments for dividend income and capital appreciation. LIC has exposure to about one thousand companies including ITC, L&T and UTI Bank. Depending on the market conditions and growth prospects, LIC has been purchasing and selling equity and booking profits at periodic intervals. As such., the investments in these companies are generating value to the policy holders as can be seen from the statement placed at Annexure.

(c)&(d): LIC has informed that there is no such compulsion for financial institutions to maintain stake in companies. However, investments in equity being long term in nature, LIC prefers to remain invested in companies with sound business model and competent and credible management to realize long term value. Wherever LIC`s holding is substantial, it has nominee Directors on the Boards of the companies. Accordingly, it has nominees on the Boards of ITC, L&T and UTI Bank.

(e): The valuation surplus of LIC is not declining. It has increased from Rs. 8664.99 crores in the year 2001-02 to Rs. 10962.60 crores in the year 2003-04.

(f)to(h): Under Section 28 of Life Insurance Act, 1956, the annual valuation surplus is distributed among insurance policy holders and government in the ratio of 95:5. As such,the policy holders are major beneficiaries of the surplus generated by LIC through its Capital Market Operations.